

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Farmington Community Library</b>	County <b>Oakland</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>8/25/04</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>BKR Dupuis &amp; Ryden</b>			
Street Address <b>111 East Court Street, Suite 1A</b>		City <b>Flint</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48502</b>	
		Date	

**Annual Financial Report**  
**Farmington Community Library**  
**For the Year Ended June 30, 2004**  
*with Independent Auditors' Report*

**Farmington Community Library, Michigan  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2004**

**Table of Contents**

	<u>Page</u>
 Financial Section:	
Report of Independent Auditors.....	1-2
Management's Discussion and Analysis .....	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	7-8
Statement of Activities .....	9-10
Fund Financial Statements:	
Balance Sheet Governmental Funds.....	11-12
Reconciliation of the Fund Balance as Reported in the Governmental Balance Sheet to the Statement of Net Assets .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	14-15
Reconciliation of the Statement of Revenues Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Notes to the Basic Financial Statements .....	17-29
Required Supplementary Information Section:	
Analysis of Funding Progress – Defined Benefit Retirement Plan .....	30
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General and Millage Funds .....	31-32

**Farmington Community Library, Michigan**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2004**

**Table of Contents – (continued)**

	<u>Page</u>
Combining Fund Statements and Fund Descriptions:	
Fund Descriptions .....	33-34
Combining Statements:	
Combining Balance Sheet – Non-major Governmental Funds .....	35-36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds .....	37-38
Special Revenue Funds – Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual .....	39-40

## **Financial Section**

*Independent Auditors' Report*

To the Board of Trustees of  
Farmington Community Library:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Farmington Community Library, Michigan (Library) as of June 30, 2004, and for the year then ended, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Farmington Community Library, Michigan at June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and pension plan analysis of funding progress on pages 3 through 6, and 30 through 40 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Farmington Community Library's basic financial statements. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*BKR Dupuis & Ryden*

Certified Public Accountants  
Flint Office

August 25, 2004

## **Management's Discussion and Analysis**



## **Farmington Community Library Management's Discussion and Analysis**

This section of Farmington Community Library annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Library's financial statements, which follow this section.

### **First Year - Governmental Accounting Standards Board Statement No.34**

Farmington Community Library is implementing the new Governmental Accounting Standards Board Statement No. 34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the Library is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this problem, and does not require the Library to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. The Library will present a comparative analysis of government-wide data in future years when prior-year information is available. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

### **Financial Highlights**

- The Library's Total Net Assets are \$16.5 million.
- During the year, the Library's governmental revenues generated in taxes, City shared revenues, donations to the Endowment Fund, and other revenues were \$445,782 greater than expenses for Library operations. Note that Endowment Fund donations of \$114,670 are included in this total and were significantly higher than amounts historically received.
- General fund revenues exceeded expenditures by \$18,366, creating a total fund balance of \$87,270 in the General Fund.

### **Overview of the Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Library:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Library's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Library government, reporting the Library's operations in more detail than the government-wide statements.
  - \* The governmental fund statements tell how general government services were financed in the short term as well as what remains for future spending.
  - \* Unlike other governmental entities, the library has no activities requiring Proprietary fund statements.
  - \* Fiduciary fund statements provide information about the financial relationships – like the retirement plan for the Library's employees – in which the Library acts as an agent that administers the fund for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 summarizes the major features of the Library's financial statements, including the portion of the Library government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Farmington Community Library  
Government-wide and Fund Financial Statements  
Fund Statements**

<b>Type of Statements</b>	<b><u>Government-wide</u></b>	<b><u>Governmental Funds</u></b>
Scope	Entire Library government (except fiduciary funds) and the Library's component unit, Metro Net	The activities of the Library that are not proprietary or fiduciary in nature
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

### **Government-wide Statements**

The government-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Library's net assets and how they have changed. Net assets – the difference between the Library's assets and liabilities – is one way to measure the Library's financial health or position.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Library you need to consider additional non-financial factors such as changes in the Library's property tax base.

The government-wide financial statements of the Library are divided into two categories:

- Governmental activities – The Library’s basic services are included here. Property taxes, shared revenue from the member Cities (Farmington and Farmington Hills), and state grants finance most of these activities.
- Component units – The Library includes one other entity in its report – the Metro Net Library Consortium. Although legally separate, this “component unit” is important because the Library serves as the Metro Net Fiscal Agent and is financially accountable for it.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Library’s most significant funds – not the Library as a whole. Funds are accounting devices that the Library uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Library Board establishes other funds to control and manage money for particular purposes (like the Employee Benefit Fund) or to show that it is properly using certain taxes and grants.

The Library has one kind of funds:

- Governmental funds – Most of the Library’s basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- Proprietary funds and fiduciary funds – The Library does not currently have these types of funds.

### **Financial Analysis of the Library as a Whole**

#### **Changes in Net Assets:**

The Library’s combined net assets are \$6,787,043. In comparison, last year net assets were \$6,242,427, an increase of \$544,616. The increase was due primarily to general revenues exceeding operating expenses.

#### **Governmental Activities:**

The Library’s total governmental activity expenses were \$5,764,852. There were charges for services and operating grants received of \$202,650 and \$240,045, respectively. General revenues consisting of millage property taxes (\$2,447,993), shared revenues or appropriations from the City of Farmington and City of Farmington Hills (\$3,396,994) and investments earnings (\$21,786) were also received. These activities resulted in an increase in net assets of \$544,616, for an 8.7% increase.

### **Financial Analysis of the Library’s Funds**

As the Library completed the year, its governmental funds reported a combined fund balance of \$736,791. The fund balance is designated for capital improvements of \$36,786, employee benefits of \$20,896, and library development of \$166,033, debt retirement of \$185,091, a designated Endowment Fund of \$240,716, leaving undesignated fund balance of \$87,269.

## **General Fund Budgetary Highlights**

### **Capital Assets**

At the end of 2004, the Library had invested \$6,217,552 in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34.

### **Long-term Debt**

At year-end the Library had \$9,340,000 in bonds and notes outstanding for governmental activities.

### **Economic Factors and Next Year's Budgets and Rates**

- Property tax revenue will continue to be strong as the surrounding areas continue to see growth.
- Inflationary trends in the region compare favorably to national indices.
- The Library expects to see reduced funding in appropriations from member cities as their budgets are affected by the "trickle down" effects of the poor State economy. The Governor has already projected another year of state deficit with a shortfall \$500 million for the state fiscal year beginning October 1, 2005. Local officials have predicted that state revenue sharing monies may end within two years.
- Library appropriations from the cities of Farmington and Farmington Hills have been decreased three times in eighteen months for a total reduction in budgeted revenues in excess of \$650,000.

In the spring 1998, the City Councils of Farmington and Farmington Hills endorsed a "Letter of Understanding" regarding appropriations. A library funding formula of .8144 mill was earmarked for support of current library operations, with the understanding the success of the proposed millage (.6 mill) would support debt retirement and enhanced library operations. This funding formula was abrogated with the budget year that began July 1, 2004.

In December 2003, Library Trustees were instructed to reduce their operating budget, pending a cut in appropriations that was tied to a reduction in state revenue sharing monies. These reductions represent \$167,074 – or 5% of the Cities' appropriations. This is the second year in which the Cities' appropriation was reduced mid-year. In FY 2002-03, the Library's budget was also reduced by \$61,976, due to cuts in the Cities' budgets. However, the library reduction was linked to a reduction of the .8144 mill formula which had previously not been reduced by the Headlee rollback. This reduction was made in mid-year. To accommodate the less-than-anticipated revenues, line item cuts were made to supplies, travel and books.

The Library's budget request for FY 2004-05 was not approved, using the funding formula that had been in effect since 1998. Instead, the Councils approved an appropriation amount that was another 5% reduction of the appropriation decreased in FY 2003-04. The total reduction of anticipated revenue was \$420,154. Library Trustees reduced hours of operation, eliminated staff positions to a level experienced in 1997-98 prior to doubling the size of the main library, cut the book budget, and made other adjustments in expense line items over which the Board has some control.

Financial stability for operating monies through a dedicated millage is the primary goal of the Trustees' strategic plan. As a district library, the current operational funding method through appropriations is an anomaly that has proven to be unreliable. Ninety-five percent (95%) of district libraries have dedicated operating millage. The Trustees will seek voter approval of an independent operating millage in 2005.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library Director, 32737 West Twelve Mile Road, Farmington Hills, Michigan 48334-3302.

## **Basic Financial Statements**

## **Government-wide Financial Statements**

**Farmington Community Library  
Statement of Net Assets  
June 30, 2004**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Metro Net</u>
<b>Assets</b>		
Cash and equivalents	\$ 576,275	\$ 20,813
Investments	240,716	-
Accounts receivable	405	204,200
Due from component units	139,247	-
Prepaid items	43,116	-
Capital assets (net of accumulated depreciation)	15,557,552	-
	<hr/>	<hr/>
Total assets	<u>\$ 16,557,311</u>	<u>\$ 225,013</u>

*See notes to financial statements.*

**Farmington Community Library**  
**Statement of Net Assets (continued)**  
**June 30, 2004**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Metro Net</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 184,673	\$ -
Accrued liabilities	76,611	-
Due to primary government	-	139,247
Noncurrent liabilities:		
Due within one year	840,000	-
Due in more than one year	8,668,984	-
Total liabilities	<u>9,770,268</u>	<u>139,247</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	6,217,552	-
Unrestricted	569,491	85,766
Total net assets	<u>6,787,043</u>	<u>85,766</u>
Total liabilities and net assets	<u>\$ 16,557,311</u>	<u>\$ 225,013</u>



**Farmington Community Library  
Statement of Activities  
For the Year Ended June 30, 2004**

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary government</b>			
Governmental activities:			
General government-library operations	\$ 5,366,693	\$ 202,650	\$ 240,045
Interest on long-term debt	398,159	-	-
Total governmental activities	5,764,852	202,650	240,045
Total primary government	<u>\$ 5,764,852</u>	<u>\$ 202,650</u>	<u>\$ 240,045</u>
<b>Component unit:</b>			
Metro Net	<u>\$ 58,884</u>	<u>\$ 60,868</u>	<u>\$ - 0 -</u>
<b>General revenues:</b>			
Property taxes - special millage			
Shared revenues - cities			
Unrestricted investment earnings			
Total general revenues			
Change in net assets			
Net assets - beginning			
Net assets - ending			

See notes to financial statements.

**Net (Expense) Revenue and  
and Changes in Net Assets**

<b>Primary Government</b>	<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Metro Net</b>
\$ (4,923,998)	\$ -
(398,159)	-
(5,322,157)	-
(5,322,157)	-
-	1,984
2,447,993	-
3,396,994	-
21,786	156
5,866,773	156
544,616	2,140
6,242,427	83,626
<u>\$ 6,787,043</u>	<u>\$ 85,766</u>

## **Fund Financial Statements**

**Farmington Community Library  
Balance Sheet  
Governmental Funds  
June 30, 2004**

	General	Millage Special Revenue	Endowment Permanent Fund
<b>Assets</b>			
Cash and cash equivalents	\$ 312,818	\$205,775	\$ -
Investments	-	-	240,716
Accounts receivable	405	-	-
Due from other funds	-	157,228	-
Due from component units	139,247	-	-
Prepaid expenses	43,116	-	-
Total assets	<u>\$ 495,586</u>	<u>\$363,003</u>	<u>\$ 240,716</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 172,794	\$ 11,879	\$ -
Accrued liabilities	76,611	-	-
Deferred revenue	1,684	-	-
Due to other funds	157,228	-	-
Total liabilities	<u>408,317</u>	<u>11,879</u>	<u>-</u>
<b>Fund balances:</b>			
Unreserved reported in:			
Designated for capital improvements	-	-	-
Designated for employee benefits	-	-	-
Designated for library development	-	166,033	-
Designated for debt retirement	-	185,091	-
Undesignated	87,269	-	240,716
Total fund balances	<u>87,269</u>	<u>351,124</u>	<u>240,716</u>
Total liabilities and fund balances	<u>\$ 495,586</u>	<u>\$363,003</u>	<u>\$ 240,716</u>

*See notes to financial statements.*

Other Governmental Funds		Total
\$	57,682	\$ 576,275
	-	240,716
	-	405
	-	157,228
	-	139,247
	-	43,116
\$	57,682	\$ 1,156,987

\$	-	\$ 184,673
	-	76,611
	-	1,684
	-	157,228
	-	420,196

	36,786	36,786
	20,896	20,896
	-	166,033
	-	185,091
	-	327,985
	57,682	736,791
\$	57,682	\$ 1,156,987

**Farmington Community Library  
Reconciliation of the Fund Balance as Reported in the  
Governmental Balance Sheet to the Statement of Net Assets  
For the Year Ended June 30, 2004**

Total Governmental Funds Fund balance as reported in the Balance Sheet Governmental Funds	\$ 736,791
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,557,552
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,684
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	<u>(9,508,984)</u>
Net Assets - Governmental Activities	<u><u>\$ 6,787,043</u></u>

**Farmington Community Library  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2004**

	<b>General Fund</b>	<b>Millage Special Revenue</b>	<b>Endowment Permanent Fund</b>
<b>Revenues:</b>			
Property taxes	\$ -	\$ 2,448,531	\$ -
Intergovernmental revenues:			
City of Farmington Hills	2,897,587	-	-
City of Farmington	276,814	-	-
State of Michigan	222,593	-	-
Memorials and gifts	231,822	-	-
Investment income	1,239	3,228	14,670
Grants	8,223	-	-
Fines	123,028	-	-
Other	77,592	-	-
<b>Total revenues</b>	<b>3,838,898</b>	<b>2,451,759</b>	<b>14,670</b>
<b>Expenditures:</b>			
General government:			
Salaries	2,010,646	332,314	-
Fringe benefits	551,481	93,749	-
Professional services	96,854	29,204	-
Utilities	164,786	50,767	-
Automation	63,035	-	-
Insurance	79,779	-	-
Repairs and maintenance	86,992	12,103	-
Gift fund purchase	68,424	-	-
Grants	6,119	-	-
Improved collections	-	33,160	-
Interest expense	-	204,759	-
Other	180,736	9,450	-
Metro Net	29,999	-	-
Capital outlay:			
Capital improvements	-	188,574	-
Equipment and furniture	-	9,404	-
Books, periodicals, and library materials	364,181	-	-
Debt service:			
Principal and interest retirement	-	1,175,827	-
<b>Total expenditures</b>	<b>3,703,032</b>	<b>2,139,311</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	135,866	312,448	14,670
<b>Other financing sources (uses):</b>			
Operating transfers in	-	-	100,000
Operating transfers out	(117,500)	-	-
<b>Total other financing uses</b>	<b>(117,500)</b>	<b>-</b>	<b>100,000</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	18,366	312,448	114,670
Fund balance - beginning of year	68,903	38,676	126,046
<b>Fund balance - end of year</b>	<b>\$ 87,269</b>	<b>\$ 351,124</b>	<b>\$ 240,716</b>

See notes to financial statements.

Other Governmental Funds		Total
\$	-	\$ 2,448,531
	-	2,897,587
	-	276,814
	-	222,593
	-	231,822
	2,648	21,785
	-	8,223
	-	123,028
	-	77,592
	2,648	6,307,975
	-	2,342,960
	14,877	660,107
	-	126,058
	-	215,553
	-	63,035
	-	79,779
	-	99,095
	-	68,424
	-	6,119
	-	33,160
	-	204,759
	-	190,186
	-	29,999
	2,641	191,215
	-	9,404
	-	364,181
	2,332	1,178,159
	19,850	5,862,193
	(17,202)	445,782
	17,500	117,500
	-	(117,500)
	17,500	-
	298	445,782
	57,384	291,009
\$	57,682	\$ 736,791



**Farmington Community Library  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities (page 9)  
are different because:

Net change in fund balances - total governmental funds (page 15)	\$ 445,782
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period	(689,536)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,684
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	786,686
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	<u>\$ 544,616</u>
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## **Notes to Basic Financial Statements**

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies**

The accounting policies of the Farmington Community Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Farmington Community Library.

**A. Reporting entity**

The Farmington Community Library (the "Library") was established in 1956 and serves the Farmington communities through two libraries located in Farmington and Farmington Hills. The Library is governed by an eight-member Board of Trustees and an appointed Library Director. It provides resources for the informational, educational, cultural, and recreational needs of its patrons.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although they can be legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

**Blended component units:**

**Metro Net Expendable Trust** - The Library is a member of this consortium and acts as its fiscal agent. As a result, it would be misleading to exclude the consortium from the reporting entity financial statements. In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component unit, has been included in the financial reporting entity as a discretely presented component unit.

All financial information of this component unit has been included in these financial statements. There are no separately issued financial statements.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Library currently does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies – (continued)**

**B. Government-wide and fund financial statements – (continued)**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library currently has no proprietary or enterprise funds.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Millage Fund is used for tax levies restricted to fund Library development and transfers to the debt service fund to fund 1998 Library Building and Site Bond principal and interest payments.

Additionally, the government reports the following fund types:

Special Revenue Funds - These funds are used to account for specific governmental revenues that are legally restricted to expenditure for particular purposes.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Fund – Capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies – (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

Fiduciary Fund – This fund, used to account for assets held in a trust or as an agent for others, includes the Endowment Expendable Trust Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits**

The Library's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Investments:**

Investments for the Library, as well as for its component unit, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

**3. Receivables and payables**

In general, outstanding balance between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles.

**4. Prepaid items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity - (continued)**

**5. Capital assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39-15
Vehicles	5
Equipment and furniture	7-3

**6. Employee vacation and sick leave**

Library employees have a vested right to receive payment for unused vacation and sick leave under conditions specified in the personnel policy manual. Accruals for these liabilities are recorded as earned by employees.

**7. Long-term obligations**

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the statement of net assets.

- Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
- The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity - (continued)**

**9. Property taxes**

Property taxes attach as an enforceable lien on property as of December 31 each year. Library taxes, levied and immediately due July 1, are collected by the Cities of Farmington and Farmington Hills without penalty through September 15, and with penalty thereafter. Library property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds and notes payable	\$9,340,000
Compensated absences	<u>168,984</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u><u>\$9,508,984</u></u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 41,535
Depreciation expense	<u>(731,071)</u>
Net adjustment to decrease <i>net changes in fund balances -</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u><u>\$(689,536)</u></u>

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

The Library employs the following procedures in establishing the budgetary data reflected in the financial statements:

- In March, the Library Director submits to the Board of Trustees and the Cities of Farmington and Farmington Hills, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Appropriations are made on an object (line-item) basis.
- A public hearing is conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of a resolution by the Board of Trustees.
- Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Fund Type.
- Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budget amounts included in the financial statements are as originally adopted or as amended by the Board during the year. Individual amendments were not material in relation to the original appropriations. Appropriations unused at June 30 are not carried forward to the following year.

**B. Excess of expenditures over appropriations**

The following funds incurred expenditures in excess of appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over Budget</u>
Millage Fund:			
Salaries	\$ 279,000	\$332,314	\$ 53,314
Fringe benefits	92,600	93,749	1,149



**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds**

**A. Deposits and investments**

**Deposits:**

The Library's deposits consist of savings accounts and checking accounts. At year end, the carrying amount of the Library's deposits excluding petty cash of \$600 was \$312,197, and the bank balance was \$382,035. The bank balance was above the book balance due to checks outstanding at year end and deposits in transit. Of the bank balance, \$200,050 or 52% was covered by federal depository insurance.

**Investments:**

The Library invests in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with Federally insured financial institutions; high-grade commercial paper; repurchase obligations of the U.S. Government and U.S. agencies, banker's acceptances of the ten largest U.S. banks; investment grade obligations of the State of Michigan; investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367; investment pools organized under the Urban Cooperation Act, 1967 PA 7; investment pools organized under the Local Government Investment Pool Act, 1985 PA 121; and mutual funds comprised of the above authorized investments. The Library Board has adopted the above as its investment policy and additionally approved the following as authorized depositories: Metro Bank of Farmington, Bank One, Standard Federal Bank, and Merrill Lynch.

The following analysis represents the investments held by the Library at June 30, 2004:

	<u>Carrying Amount</u>	<u>Market Value</u>
Money Market Mutual Funds	\$263,478	\$263,478
Governmental Securities Mutual Fund	36,916	36,916
Stock Mutual Fund	<u>203,800</u>	<u>203,800</u>
Total investments	<u>\$504,194</u>	<u>\$504,194</u>

The investments are not categorized by market risk due to the fact that they are not evidenced by securities that exist in book entry form. The Endowment Permanent Fund holds 100% of the governmental securities mutual fund and stock mutual fund. The trust is governed by an Endowment Trust document.

The money market mutual fund (\$263,478) is classified as a cash and cash equivalent on the balance sheet.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**B. Capital assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 138,052	\$ -	\$ -	\$ 138,052
 Total capital assets, not being depreciated	<u>138,052</u>	<u>-</u>	<u>-</u>	<u>138,052</u>
 Capital assets, being depreciated:				
Buildings and sites	16,608,375	22,000	-	16,630,375
Furniture and equipment	2,350,838	19,534	-	2,370,372
Vehicles	57,294	-	-	57,294
 Total capital assets being depreciated	19,016,507	41,534	-	19,058,041
 Less accumulated depreciation	<u>2,907,470</u>	<u>731,071</u>	<u>-</u>	<u>3,638,541</u>
 Total capital assets, being depreciated, net	<u>16,109,037</u>	<u>(689,537)</u>	<u>-</u>	<u>15,419,500</u>
 Governmental activities capital assets, net	<u>\$16,247,089</u>	<u>\$(689,537)</u>	<u>\$ -0-</u>	<u>\$15,557,552</u>

**C. Interfund receivables, payables, and transfers**

The composition of interfund balances as of June 30, 2004 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Millage Fund	General Fund	\$157,228

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds - (continued)**

**D. Long-term debt**

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term liability activity for the year ended June 30, 2004 can be summarized as follows:

	<u>General Obligation Bonds</u>	<u>Accumulated Annual and Sick Pay</u>	<u>Total</u>
Governmental activities:			
Debt at July 1, 2003	\$10,120,000	\$175,670	\$10,295,670
Principal payments made	(780,000)	-	(780,000)
Net change – sick pay	<u>-</u>	<u>13,742</u>	<u>13,742</u>
Total governmental activities long-term debt	<u>\$ 9,340,000</u>	<u>\$189,412</u>	<u>\$ 9,529,412</u>

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Original Amount of Issue</u>	<u>Balance at June 30, 2003</u>	<u>Issuances (Retirements) During Year</u>
Governmental activities:					
1998 Library Building and Site Bonds	2013	3.5-4.4%	\$12,000,000	\$ 9,070,000	\$(715,000)
2003 Library Building and Site Bonds	2013	1.5-3.1	1,050,000	1,050,000	(65,000)
Accrued annual and sick pay				<u>175,670</u>	<u>13,742</u>
Total governmental activities				<u>\$10,295,670</u>	<u>\$(766,258)</u>

<b>Balance at June 30, <u>2004</u></b>	<b>Due Within One <u>Year</u></b>
\$8,355,000	\$755,000
985,000	85,000
<u>189,412</u>	<u>-</u>
<u><u>\$9,529,412</u></u>	<u><u>\$840,000</u></u>

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds - (continued)**

**D. Long-term debt - (continued)**

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End</u> <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 840,000	\$371,882
2006	885,000	341,164
2007	930,000	308,012
2008	980,000	272,714
2009	1,030,000	235,308
2010-2013	4,675,000	504,132
Total	<u>\$9,340,000</u>	<u>\$2,033,212</u>

**V. Other information**

**A. Deferred compensation**

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all regular Library employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. There are no employer contributions required by the plan. During the year ended June 30, 1997, the law was changed to allow trusts to be created for the plan assets, thereby, insulating the assets from the unit of government's general creditors. The Library's plan administrator, International City Managers Association created the trust and placed the assets of the plan within the trust. As a result, the plan assets are not reported in the Library's financial statements to properly reflect that the Library does not have any fiduciary or administrative responsibility for the plan.

**B. Retirement plans**

The Library has two retirement plans in existence. One is a defined benefit plan and the other is a defined contribution plan. Each are described in the following note.

**1. Defined benefit plan:**

The Farmington Community Library participates in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by Michigan Employees Retirement System (an independent not-for-profit organization). The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The plan is included in the annual report of MERS which can be obtained from the offices of MERS in Lansing Michigan. The Library has no fiduciary responsibility for the plan.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**B. Retirement plans – (continued)**

**1. Defined benefit plan: - (continued)**

All regular employees of the Library hired before July 15, 1999 and working 80 hours or more per month are eligible to participate in the plan. As of December 31, 2003, the Library had 29 covered employees, 4 inactive vested members, and 14 retirees and beneficiaries. Total and covered payrolls for the year ended June 30, 2004, were \$2,342,960 and \$1,191,320, respectively.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

Participants are entitled to a retirement benefit equal to the credited service at the time of membership termination multiplied by 2.0%, of the member's final average compensation (F.A.C.). The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available.

**Defined benefit contributions:**

The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. Employees are required to contribute five percent of salary to the plan. The Library makes employer contributions in accordance with funding requirements determined by MERS' actuary. The MERS' actuary uses an entry age – normal cost actuarial funding method. Annual pension cost for the year ended June 30, 2004 was \$107,363. During the year ended June 30, 2004, contributions totaling \$63,117 and \$28,808 were made by the employer and employees, respectively. Benefit provisions and contribution obligations have been established by the contract.

**Defined benefit funding method and assumptions:**

The terms of the plans require that the Library shall make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force.

	<u>Library</u>
Annual required pension contributions	\$ 91,925
Contributions made	\$ 91,925
Actuarial valuation date	12/31/03
Actuarial cost method	Entry age – FIL
Amortization method	Level \$
Remaining amortization period (weighted)	8 years
Asset valuation method	(1)
Actuarial assumptions:	
Investment rate of return	8.0
Projected salary increase	(2)

(1) Expected rate of return with an adjustment to market.

**Farmington Community Library, Michigan**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**B. Retirement plans – (continued)**

1. Defined benefit plan: - (continued)

- (2) 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. The range of the percentages are from 8.66% for a 20 year-old participant to 4.5% for a 60 year-old participant.

2. Defined contribution plan:

During the year ended June 30, 2000, the Farmington Community Library began a defined contribution pension plan. All regular employees of the Library hired after July 15, 1999, and working 80 hours or more per month are eligible to participate in the plan. Employees hired before July 15, 1999 had a one-time option to remain with the MERS Defined Benefit Pension Plan, or to transfer their retirement accruals to the Defined Contribution Plan. The transfer occurred on March 29, 2000.

Defined contribution plan contributions:

The plan provides that the Library will contribute 5% of eligible employee's gross wages to the plan, and employees may contribute after-tax wages to the plan. The contributions are self-directed by the employees among several investment options. Contributions are fully vested at the time of the contribution. Employees may withdraw pension accruals upon termination from the Library. For the year ended June 30, 2003, employer contributions to the plan were \$40,707, and employee contributions to the plan were \$4,435.

**C. Risk management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library has purchased commercial insurance coverage for all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Library maintains a self-insured plan for dental, optical, and hearing impairment medical claims. The Library reimburses each employee for 75% of claims up to a maximum of \$1,200 out of pocket expense less \$25 deductible per year. Total claims expense for the year ended June 30, 2004 amounted to \$14,577. Liability for unpaid claims was immaterial at June 30, 2004.

**D. Metro Net**

The Metro Net Library Consortium (the "Consortium" or "Metro Net") is a Michigan nonprofit corporation incorporated in January 1994, whose members are eight public libraries: Baldwin (Birmingham), Bloomfield Township, Canton, Farmington Community, Independence Township, Rochester Hills, Southfield, and West Bloomfield Township. The Consortium was founded to promote resource sharing by creating a flexible environment conducive to experimentation, technology innovations and progressive approaches to library service. For a fee, other libraries may join the Consortium as subscribers to the Metro Net services.

The Farmington Community Library is the principal office of Metro Net, with the Farmington Community Library director serving as the Consortium's fiscal agent and on the Consortium's Board of Directors. The financial activities of Metro Net are discretely presented as a component unit expendable trust fund.

## **Required Supplementary Information**



**Farmington Community Library**  
**Required Supplementary Information**  
**Analysis of Funding Progress - Defined Benefit Retirement Plan**  
**June 30, 2004**

Historical Trend Information:

Actuarial Valuation Date <u>12/31</u>	(1)  Actuarial Value of Plan Assets	(2)  Actuarial Accrued Liability	(3)  Percent Funded <u>(1)/(2)</u>	(4)  Unfunded (Funding Excess) Actuarial Liability <u>(1)-(2)</u>	(5)  Annual Covered (Valuation) Payroll	(6)  Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage of Annual Covered Payroll <u>(4)/(5)</u>
2003	\$5,363,814	\$5,542,202	97.0%	\$178,388	\$1,133,183	16.00%
2002	4,998,826	5,328,712	94.0	329,886	1,159,074	28.00
2001	4,831,694	4,835,241	99.9	3,547	1,103,778	0.00
2000	4,501,512	4,458,454	101.0	(43,058)	1,074,740	0.00
1999	4,381,726	4,508,953	97.0	127,227	1,501,252	8.00
1998	3,790,967	4,003,818	95.0	212,851	1,423,312	15.00
1997	3,372,421	3,568,732	94.0	196,311	1,312,530	15.00

**Farmington Community Library  
General Fund  
Schedule of Revenues, Expenditures,  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2004**

	<b>Budgeted</b>		<b>Actual</b>	<b>Variance With Final Budget- Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Intergovernmental revenues:				
City of Farmington Hills	\$ 3,050,092	\$ 2,897,587	\$ 2,897,587	\$ -
City of Farmington	291,383	276,814	276,814	-
State of Michigan	213,000	217,982	222,593	4,611
Memorials and gifts	58,000	227,831	231,822	3,991
Interest and dividends	4,500	1,100	1,239	139
Grants	-	8,223	8,223	-
Fines	120,000	122,000	123,028	1,028
Other	55,000	74,600	77,592	2,992
<b>Total revenues</b>	<b>3,791,975</b>	<b>3,826,137</b>	<b>3,838,898</b>	<b>12,761</b>
<b>Expenditures:</b>				
General government:				
Salaries	2,046,346	2,010,646	2,010,646	-
Fringe benefits	551,481	551,481	551,481	-
Professional services	85,000	100,000	96,854	3,146
Utilities	170,000	169,000	164,786	4,214
Automation	71,000	71,000	63,035	7,965
Insurance	47,000	80,000	79,779	221
Repairs and maintenance	87,000	87,000	86,992	8
Gift fund purchase	58,000	68,424	68,424	-
Grants	-	8,223	6,118	2,105
Other	246,100	197,500	180,736	16,764
Metro Net	30,000	30,000	29,999	1
Capital outlay:				
Books, periodicals, and library materials	381,000	381,000	364,181	16,819
<b>Total expenditures</b>	<b>3,772,927</b>	<b>3,754,274</b>	<b>3,703,031</b>	<b>51,243</b>
Excess (deficiency) of revenues over expenditures	19,048	71,863	135,867	64,004
<b>Other financing sources (uses):</b>				
Operating transfers out	(17,500)	(117,500)	(117,500)	-
<b>Total other financing uses</b>	<b>(17,500)</b>	<b>(117,500)</b>	<b>(117,500)</b>	<b>-</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	1,548	(45,637)	18,367	64,004
Fund balance - beginning of year	68,903	68,903	68,903	-
<b>Fund balance - end of year</b>	<b>\$ 70,451</b>	<b>\$ 23,266</b>	<b>\$ 87,270</b>	<b>\$ 64,004</b>

**Farmington Community Library  
Millage Fund  
Schedule of Revenues, Expenditures,  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2004**

	Millage Fund			
	Budgeted			Variance- Favorable
	Original	Amended	Actual	(Unfavorable)
Revenues:				
Property taxes	\$ 2,460,711	\$2,447,983	\$ 2,448,531	\$ 548
Interest	15,000	2,000	3,228	1,228
Total revenues	2,475,711	2,449,983	2,451,759	1,776
Expenditures:				
General government:				
Salaries	324,116	279,000	332,314	(53,314)
Fringe benefits	51,622	92,600	93,749	(1,149)
Professional services	60,000	80,000	29,204	50,796
Utilities	91,000	70,000	50,767	19,233
Repair and maintenance	-	30,000	12,103	17,897
Improved collections	150,000	75,000	33,160	41,840
Interest expense	-	204,759	204,759	-
Other	20,000	10,000	9,450	550
Capital outlay:				
Capital improvements	175,000	226,100	188,574	37,526
Equipment and furniture	20,000	10,000	9,404	596
Debt service:				
Principal and interest retirement	1,453,763	1,175,827	1,175,827	-
Total expenditures	2,345,501	2,253,286	2,139,311	113,975
Excess (deficiency) of revenues over expenditures	130,210	196,697	312,448	115,751
Other financing uses:				
Operating transfers in	-	-	-	-
Total other uses	-	-	-	-
Excess (deficiency) of revenue and other sources over expenditures	130,210	196,697	312,448	115,751
Fund balance - beginning of year	38,676	38,676	38,676	-
Fund balance - end of year	\$ 168,886	\$ 235,373	\$ 351,124	\$ 115,751

# **Combining Fund Statements and Fund Descriptions**

**Farmington Community Library, Michigan  
Non-Major Governmental Funds  
Summary Descriptions  
June 30, 2004**

**Special Revenue Funds**

Employee Benefit Fund - This fund accounts for employee benefits financed by the General Fund.

Capital Reserve Fund - This fund accounts for monies specifically restricted for the purchase of certain property and equipment, accounted for as expenditures of the General Fund. The fund also serves as a self insurance mechanism against future flood conditions not compliant with FEMA regulations.

**Debt Service Funds**

The Debt Service Fund was established to accumulate resources for the payment of the 1998 Building and Site Bond principal and interest payments.

**Capital Projects Funds**

The 2003 Bond Fund was established to account for the bond proceeds from the 2003 Library and Building Site Bonds and expenses related to the Library addition.

**Farmington Community Library, Michigan**  
**Fiduciary Funds**  
**Summary Descriptions**  
**June 30, 2004**

**Expendable Trust Funds**

The Endowment Fund - In accordance with the resolution, dated August 13, 1992, the Farmington Community Library Board of Trustees established the Farmington Community Library Endowment Fund to finance: special collections; special projects; technology; or other special intentions approved by the Library Board of Trustees, for which funds are not available through the General Operating Fund; and, to the extent required by the terms of the donation and approved by the Board of Trustees, for purposes specified by donors.

**Farmington Community Library  
Combining Balance Sheet  
Non-major Governmental Funds  
June 30, 2004**

	<u>Special Revenue</u>	
	<u>Employee Benefit Fund</u>	<u>Capital Reserve Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 20,896	\$ 36,786
Due from other funds	-	-
Total assets	<u>\$ 20,896</u>	<u>\$ 36,786</u>
<b>Fund Balances</b>		
Unreserved:		
Designated for capital improvements	\$ -	\$ 36,786
Designated for employee benefits	20,896	-
Total fund balances	<u>\$ 20,896</u>	<u>\$ 36,786</u>

<u>Capital Projects</u>	<u>Debt Service</u>
-----------------------------	-------------------------

<u>2003 Bond</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ 57,682
-	-	-
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 57,682</u>

\$ -	\$ -	\$ 36,786
-	-	20,896
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 57,682</u>



**Farmington Community Library**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**Non-major Governmental Funds**  
**For the Year Ended June 30, 2004**

	<u>Special Revenue</u>	
	<u>Employee Benefit Fund</u>	<u>Capital Reserve Fund</u>
<b>Revenues:</b>		
Interest	\$ 95	\$ 248
Total revenues	<u>95</u>	<u>248</u>
<b>Expenditures:</b>		
General government:		
Fringe benefits	14,877	-
Capital outlay	-	-
Debt service	-	-
Total expenditures	<u>14,877</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(14,782)</u>	<u>248</u>
<b>Other financing sources (uses):</b>		
Operating transfers in	<u>17,500</u>	<u>-</u>
Total other financing uses	<u>17,500</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,718	248
Fund balances - beginning of year	<u>18,178</u>	<u>36,538</u>
<b>Fund balances - end of year</b>	<u><u>\$ 20,896</u></u>	<u><u>\$ 36,786</u></u>

**Capital  
Projects****Debt  
Service**

<b>2003 Bond</b>	<b>Debt Service</b>	<b>Total</b>
\$ 1,075	\$ 1,230	\$ 2,648
1,075	1,230	2,648
-	-	14,877
2,641	-	2,641
-	2,332	2,332
2,641	2,332	19,850
(1,566)	(1,102)	(17,202)
-	-	17,500
-	-	17,500
(1,566)	(1,102)	298
1,566	1,102	57,384
\$ - 0 -	\$ - 0 -	\$ 57,682

**Farmington Community Library  
Special Revenue Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget and Actual  
For the Year Ended June 30, 2004**

	<b>Employee Benefit Fund</b>			
	<b>Budgeted</b>		<b>Actual</b>	<b>Variance- Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Interest	\$ 500	\$ 500	\$ 95	\$ (405)
Total revenues	500	500	95	(405)
<b>Expenditures:</b>				
General government	-	-	-	-
Fringe benefits	17,500	17,500	14,877	2,623
Capital outlay	-	-	-	-
Total expenditures	17,500	17,500	14,877	2,623
Excess (deficiency) of revenues over expenditures	(17,000)	(17,000)	(14,782)	2,218
<b>Other financing sources (uses):</b>				
Operating transfers in	-	-	17,500	17,500
Operating transfers out	-	-	-	-
Transfer from component unit	-	-	-	-
Total other sources (uses)	-	-	17,500	17,500
Excess (deficiency) of revenue and other sources over expenditures	(17,000)	(17,000)	2,718	19,718
Fund balance - beginning of year	18,178	18,178	18,178	-
<b>Fund balance - end of year</b>	<b>\$ 1,178</b>	<b>\$ 1,178</b>	<b>\$ 20,896</b>	<b>\$ 19,718</b>

Capital Reserve Fund				T o t a l s		
Budgeted		Actual	Variance- Favorable (Unfavorable)	Final Budget	Actual	Variance- Favorable (Unfavorable)
Original	Final					
\$ -	\$ -	\$ 248	\$ 248	\$ 500	\$ 343	\$ (157)
-	-	248	248	500	343	(157)
-	-	-	-	-	-	-
-	-	-	-	17,500	14,877	2,623
-	-	-	-	-	-	-
-	-	-	-	17,500	14,877	2,623
-	-	248	248	(17,000)	(14,534)	2,466
-	-	-	-	-	17,500	17,500
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	17,500	17,500
-	-	248	248	(17,000)	2,966	19,966
36,538	36,538	36,538	-	54,716	54,716	-
\$ 36,538	\$ 36,538	\$ 36,786	\$ 248	\$ 37,716	\$ 57,682	\$ 19,966

August 25, 2004

Members of the Board of Trustees  
Beverly Papai, Library Director  
The Farmington Community Library

We have audited the basic financial statements of The Farmington Community Library for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of The Farmington Community Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Our consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

#### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The Farmington Community Library are described in Note 1 to the general purpose financial statements. We noted no transactions entered into by The

Members of the Board of Trustees  
Beverly Papai, Library Director  
The Farmington Community Library  
August 25, 2004  
Page 2

Farmington Community Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Farmington Community Library's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principal to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Farmington Community Library's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

### **Comments and Recommendations - 2004**

#### **Sarbanes-Oxley Act ("the American Competitiveness and Corporate Accountability Act of 2002")**

This federal legislation enacted in 2002 Affecting Public Companies was the culminating result of occurrences at the corporate level such as criminal fraud, Chief Executive Officer greed, lax corporate governance, and questionable accounting practices. The legislation subjects public companies to new standards for governance and other requirements. We want to make you aware that many states are considering implementing legislation to

Members of the Board of Trustees  
Beverly Papai, Library Director  
The Farmington Community Library  
August 25, 2004  
Page 3

have similar requirements established for not-for-profit entities. The thought being that the public trust demands the same standards be applicable to not-for-profits. Concepts of the Sarbanes-Oxley provisions potentially relevant to not-for-profit organizations are:

1. Establishment of an Audit Committee- composed of members with no financial interest in or any other conflict of interest with any entity doing business with the Organization.
2. Certification of the Financial statements by the CEO and CFO.
3. Responsibilities of External Auditors- lead partner rotation and professional skepticism applied each year in the engagement.
4. Insider transactions and conflicts of interest- prohibition of loans to any board members or management.
5. Whistle-Blower Protection- a confidential and anonymous process adopted to encourage employees to report any inappropriateness within the entity's financial management. In addition, there should be no repercussions levied against the whistle-blower. The benefit of this process is that a message is sent throughout the Organization that inappropriate misconduct will not be tolerated and that ethical business practices are expected.
6. Document Destruction- written, mandatory document retention and periodic destruction policy. The latter should include guidelines for handling electronic files and voicemail and should also address back-up procedures, archiving of documents and regular check-ups of the reliability of the system.

We would be glad to discuss the merits of each concept listed above for consideration by the Library.

We would like to take this opportunity to thank the Library's staff for their full cooperation in assisting us with performing our audit of The Farmington Community Library. The Library director, the accountant, and members of the accounting staff were very helpful and prompt in assisting us with our audit.

The information is intended solely for the use of the Board of Trustees and management of The Farmington Community Library and should not be used for any other purpose.

*BKR Dupuis & Ryder*

Certified Public Accountants  
Flint Office